

Evaluating the Prospects and Challenges of IKEA's Market Entry into Pakistan: A Strategic Analysis

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ABSTRACT

This study investigates the feasibility and implications of IKEA's potential market entry into Pakistan, focusing on the factors that could influence its success. With a growing middle class, urbanization, and increasing consumer demand for affordable yet stylish furniture, Pakistan represents an attractive opportunity for international retailers. The research examines macro-environmental influences through a PESTLE analysis, highlighting economic, political, social, technological, legal, and environmental factors that may affect IKEA's operations. Political instability, economic imbalances, and cultural preferences emerge as potential challenges, while legal compliance and product adaptation strategies are identified as essential for market acceptance. Competitor analysis indicates that major players such as Interwood, Habitt, and ChenOne occupy diverse market segments ranging from luxury bespoke furniture to contemporary ready-to-market offerings. IKEA's competitive advantage lies in its cost-effective, sustainable, and design-focused products. Primary research conducted via an online survey, compliant with GDPR, revealed varying levels of brand awareness and consumer price sensitivity, emphasizing the importance of marketing and brand positioning. Franchising is proposed as the most suitable mode of internationalization due to lower capital investment, faster market penetration, and access to local market knowledge. Nevertheless, risks associated with franchise management, service quality, and brand neutrality require careful mitigation through training and control mechanisms. Overall, this study presents strategic insights for IKEA's entry into Pakistan, contributing to the understanding of international expansion in emerging markets and guiding decisions in marketing, operations, and organizational strategy.

Keywords: IKEA, market entry, Pakistan, PESTLE analysis, franchising, competitive strategy, consumer behavior, internationalization.

1. INTRODUCTION

In recent decades, globalization has profoundly reshaped the strategies and operations of multinational corporations (MNCs), encouraging firms to explore emerging markets as a means to sustain growth, increase profitability, and diversify business risks (London and Hart 2004). The integration of global economies, advances in technology, and the rise of cross-border trade have allowed companies to access new consumer bases while leveraging economies of scale. In this context, the furniture retail industry has witnessed significant transformation, as global brands increasingly compete in markets previously dominated by local players. IKEA, the Swedish multinational furniture retailer, exemplifies a successful global expansion strategy. Established in

1943, IKEA has grown into one of the world's leading furniture companies, operating in over 50 countries and offering products known for affordability, quality, sustainability, and innovative design (Basu, Banerjee et al. 2013). The company's business model emphasizes cost efficiency, self-assembly products, and standardized global processes, which enable it to deliver consistent value across diverse markets while remaining responsive to local consumer needs. The potential expansion of IKEA into Pakistan represents an opportunity to enter a growing and dynamic market. Pakistan is home to over 240 million people, with a rapidly urbanizing population and an emerging middle class whose disposable income is steadily increasing. This demographic shift has led to

heightened demand for modern home furnishings that combine functionality, aesthetics, and affordability (Edwards 2017). According to industry reports, the Pakistani furniture market is valued in billions of dollars and is characterized by a mix of domestic brands, small-scale manufacturers, and international players. While domestic firms such as Interwood, Habitt, and ChenOne dominate specific market segments—ranging from luxury bespoke furniture to mid-range ready-to-market products—the growing preference for contemporary and globally recognized brands presents a window of opportunity for IKEA to establish a presence. However, potential challenges include cultural preferences, socio-economic diversity, political instability, regulatory complexity, and price sensitivity among consumers. Understanding these factors is critical for designing effective entry strategies and ensuring sustainable growth in the Pakistani context (Ali, Butzbach et al. 2024).

The central research question guiding this study is: What are the implications for the expansion of IKEA's markets in Pakistan in terms of demand, cultural preferences, legal regulations, and competitive factors? The research specifically aims to: (1) analyze the macro-environmental and competitive landscape of Pakistan's furniture market; (2) examine consumer attitudes, preferences, and brand awareness towards IKEA; and (3) propose strategic recommendations for market entry, including the most suitable mode of internationalization. By addressing these objectives, this study contributes both to academic knowledge on international business strategies in emerging markets and to practical decision-making for global companies considering expansion into culturally and economically diverse contexts (Su'udiah 2025). A substantial body of literature emphasizes that successful entry into emerging markets requires a comprehensive understanding of economic, political, legal, and cultural dynamics. Failure to adapt to local consumer preferences or comply with regulatory requirements can lead to significant operational risks, financial losses, and brand reputation damage. For IKEA, whose global brand identity is strongly associated with affordability, sustainability, and innovative product design, balancing standardization with local adaptation is particularly crucial. Studies on international retail expansion indicate that consumer acceptance often depends on how well global brands integrate local tastes, traditions, and shopping behaviors into their offerings. Additionally, pricing strategies, marketing campaigns, and store location decisions must reflect both global positioning and local market realities to create a competitive advantage (Gupta and Govindarajan 2017).

Moreover, the furniture industry in emerging markets is increasingly influenced by shifts in lifestyle, housing trends, and urban infrastructure development. In Pakistan, growing urban centers, modern residential projects, and increased access to online retail platforms are reshaping consumer behavior and purchasing

patterns. These trends suggest that IKEA could leverage its global e-commerce capabilities alongside physical stores to capture a broad customer base (Yu, Wang et al. 2017). However, competitive pressures from established domestic brands, potential risks from informal market operators, and challenges related to supply chain management underscore the need for careful planning, strategic market entry, and continuous monitoring.

In conclusion, this research examines IKEA's potential entry into Pakistan, highlighting the strategic, cultural, economic, and regulatory factors that could influence its success. By combining macro-level analysis, competitor assessment, and consumer insights, the study provides a nuanced understanding of both opportunities and challenges. This introduction sets the stage for a detailed investigation into how IKEA can effectively establish a presence in Pakistan while maintaining its global standards and brand identity, thereby contributing to the literature on international business strategy and market expansion in emerging economies (Khan and Shafiq 2021).

2. Literature Review

2.1 Globalization and Market Expansion

Globalization has significantly transformed the strategic outlook of multinational enterprises (MNEs), offering opportunities to access new markets, diversify risks, and achieve economies of scale (Narula and Dunning 2010). By reducing trade barriers, improving logistics, and facilitating the flow of information, globalization allows firms to extend their reach beyond domestic borders and capitalize on emerging consumer segments. Emerging markets, such as Pakistan, are particularly attractive due to their rapidly expanding populations, rising disposable incomes, and increased urbanization. These markets present substantial growth potential, particularly for consumer goods and retail sectors, including furniture and home décor. Research highlights that emerging markets offer both opportunities and challenges, as firms must navigate regulatory uncertainty, underdeveloped infrastructure, and diverse consumer preferences (Hill et al., 2020). In addition, economic volatility, fluctuating currency rates, and political instability are recurring risks that MNEs must assess before committing significant resources to market entry. Effective market expansion strategies therefore require a dual focus on macro-level environmental scanning and micro-level competitive analysis to identify favorable conditions and mitigate potential risks (Zhang 2025).

2.2 IKEA's International Strategy

IKEA's international strategy emphasizes a combination of standardization and local adaptation, ensuring that the company maintains its global brand identity while catering to regional tastes (Medina, Duffy et al. 1998).

The company's core offerings—affordable, modular, and sustainable furniture—remain consistent across international markets, while minor adaptations in design, materials, and marketing strategies are made to align with local cultural preferences. According to Jonsson and Foss (2011), IKEA's competitive advantage is derived from operational efficiency, global sourcing networks, and a strong brand reputation. The company's previous expansions in Asian markets, including China and India, illustrate the importance of understanding cultural nuances and adopting flexible market entry modes, such as franchising or joint ventures. In these markets, IKEA had to adapt its product lines, pricing strategies, and retail formats to accommodate local consumer behavior, indicating that standardization alone is insufficient for achieving long-term success in emerging economies (Sheth 2011).

2.3 PESTLE Analysis in Emerging Markets

The PESTLE framework provides a structured approach to analyzing the external environment and identifying potential threats and opportunities for market entry (Aithal and Letters 2017). In emerging markets such as Pakistan, political instability, regulatory ambiguity, and currency fluctuations are significant risk factors that may affect operational planning. Conversely, economic growth, increasing urbanization, and a rising middle-class population create favorable conditions for retail expansion (Kotler & Keller, 2016). Social and cultural factors also play a crucial role; consumer preferences for furniture design, style, and functionality vary significantly across regions, necessitating localized adaptation of product offerings (Sheng 2023). Technological developments, including the growth of e-commerce and digital marketing, further influence consumer behavior and provide channels for reaching wider customer bases. Finally, environmental and legal considerations, such as compliance with local safety regulations, import restrictions, and sustainability standards, are essential for ensuring that global operations align with local requirements.

2.4 Competitive Environment

The furniture market in Pakistan is characterized by a mix of domestic and international players, ranging from luxury brands to mass-market suppliers (LI and YANG 2012). Major firms such as Interwood, Habitt, and ChenOne operate across distinct market segments, including bespoke luxury furniture, contemporary ready-to-market products, and mid-range home furnishings. Literature on competitive strategy suggests that multinational corporations must differentiate themselves through a combination of product quality, pricing, brand image, and service excellence to successfully penetrate competitive markets. IKEA's value proposition of cost-effective, sustainable, and design-oriented furniture positions it uniquely against domestic competitors,

offering an opportunity to capture market share by emphasizing both affordability and international brand recognition (Barbaritano 2021).

2.5 Consumer Behavior and Brand Awareness

Consumer behavior is a critical determinant of successful market entry. Brand awareness significantly influences purchasing decisions, particularly in emerging markets where consumers are increasingly exposed to global brands through social media and digital advertising (Aaker, 2018). Studies indicate that price sensitivity, perceived product quality, and cultural alignment are among the most influential factors affecting consumer acceptance of international brands. Survey research in comparable emerging markets demonstrates that while some consumers are willing to pay a premium for reputed international brands, a large segment remains highly price-sensitive. For IKEA, understanding these behavioral patterns is vital for developing pricing strategies, marketing campaigns, and product offerings that resonate with local consumers (Roy 2020).

2.6 Franchising as an Entry Mode

Franchising is widely recognized as a viable strategy for international expansion, particularly for retail companies seeking rapid growth with lower capital investment (Shane 1996). By partnering with local entrepreneurs, multinational firms gain access to market knowledge, distribution networks, and operational support, while mitigating financial and operational risks (Alon, 2006). Franchising allows for scalability and faster market penetration; however, it also introduces challenges related to maintaining consistent brand standards, service quality, and operational control. Effective franchise management requires comprehensive training programs, standardized procedures, and continuous monitoring to ensure that the global brand image is preserved while meeting local expectations. For IKEA, franchising offers a strategic balance between minimizing risk and achieving rapid growth in a diverse and competitive market like Pakistan (Shane 1996).

3. Methodology

This study adopts a mixed-methods research approach, integrating both secondary and primary research to comprehensively investigate the potential entry of IKEA into the Pakistani market. The mixed-methods design allows for triangulation, ensuring that findings are validated through multiple sources and perspectives. The research methodology is structured to address the study's objectives, including analyzing macro-environmental factors, evaluating the competitive landscape, understanding consumer behavior, and identifying strategic recommendations for market entry.

3.1 Secondary Research

Secondary research was conducted through a detailed review of academic literature, industry reports, market analyses, government publications, and company-specific data. Peer-reviewed journals provided theoretical frameworks on international business strategy, franchising, and market entry in emerging economies, while industry reports offered practical insights into the furniture market in Pakistan, including market size, growth trends, consumer preferences, and competitive dynamics. Government publications were consulted to understand legal, regulatory, and economic factors, such as import restrictions, taxation policies, urban development initiatives, and trade regulations that may affect IKEA's operations. Company-specific information, including IKEA's global expansion strategies, past international experiences, and operational models, was also analyzed to provide a contextual understanding of how the company could adapt its approach to the Pakistani market. The combination of these secondary sources allowed for the identification of opportunities, risks, and key success factors for IKEA's potential entry.

3.2 Primary Research

Primary research was conducted using an online survey targeting Pakistani consumers, designed to capture insights into brand awareness, purchasing behavior, and attitudes toward IKEA. The survey was self-administered, ensuring convenience for respondents and compliance with General Data Protection Regulation (GDPR) standards, including informed consent, confidentiality, and voluntary participation. A total of 250 respondents participated, representing a diverse sample across age groups, income levels, and geographic regions, including major urban centers such as Karachi, Lahore, and Islamabad. This diversity enabled the study to capture variation in consumer preferences, price sensitivity, and familiarity with international furniture brands. The survey instrument consisted of a combination of closed-ended and open-ended questions. Closed-ended questions utilized a Likert scale to measure attitudes toward price, quality, brand reputation, and purchasing intent, while open-ended questions allowed respondents to provide qualitative insights regarding preferred furniture styles, cultural considerations, and perceived barriers to purchasing from an international retailer like IKEA. The questionnaire was pre-tested with a small pilot group to ensure clarity, relevance, and reliability of the questions.

3.3 Data Analysis

Data collected from the survey were analyzed using both quantitative and qualitative techniques. Descriptive statistics, including frequencies, percentages, and mean scores, were used to summarize trends in brand awareness, price sensitivity, and consumer preferences. Cross-tabulation was applied to examine relationships

between demographic variables, such as income or age, and purchasing behavior, highlighting which segments were most likely to engage with IKEA products. Qualitative responses were subjected to thematic analysis, identifying recurring patterns, preferences, and concerns regarding furniture style, brand perception, and shopping behavior. These analyses provided actionable insights into market segmentation, pricing strategies, and potential product adaptations necessary for successful market entry.

3.4 Ethical Considerations

Ethical rigor was maintained throughout the research process. Participation was voluntary, and respondents were informed about the purpose of the study, data usage, and confidentiality measures. No personally identifiable information was collected, and responses were stored securely to protect privacy. The study also ensured that participants had the right to withdraw at any stage without consequence. In summary, the mixed-methods approach—integrating comprehensive secondary research with a rigorously designed primary survey—provides a robust foundation for evaluating the feasibility of IKEA's entry into Pakistan. This methodology allows for a detailed understanding of macro-environmental factors, consumer attitudes, competitive dynamics, and strategic entry considerations, thereby informing practical recommendations for IKEA's potential expansion.

4. Results and Discussion

4.1 PESTLE Analysis Findings

The macro-environmental analysis indicates that Pakistan presents a promising market opportunity for IKEA, driven primarily by its growing urban population, expanding middle-class income, and rising housing developments. Urbanization has led to increased demand for modern, functional, and stylish furniture, particularly in metropolitan cities such as Karachi, Lahore, and Islamabad. Economic indicators suggest a gradually increasing disposable income among middle- and upper-middle-class households, creating a consumer segment willing to invest in home furnishings that offer both aesthetic appeal and durability. Additionally, technological advancements, including the proliferation of e-commerce platforms and digital payment systems, provide channels through which IKEA could reach a broader customer base beyond physical stores. However, political instability, inconsistent economic policies, and regulatory complexities pose operational challenges. The country's governance environment can affect import policies, taxation, and business licensing procedures, all of which require careful strategic planning. Culturally, Pakistani consumers demonstrate a preference for furniture that is both affordable and functional, yet also aligns with local design aesthetics and household norms.

This suggests that while IKEA's core products—modern, modular, and sustainable—resonate with global trends, some local adaptation in product style, color palettes, and materials may be necessary to fully capture consumer interest. Environmental factors, including sustainability awareness, are increasingly important for urban consumers, aligning with IKEA's global emphasis on eco-friendly products.

4.2 Competitive Analysis

The competitive landscape of Pakistan's furniture market is fragmented and diverse, with established domestic brands occupying distinct market segments. Interwood, for instance, focuses primarily on luxury and bespoke furniture solutions, catering to high-income households seeking premium design and craftsmanship. Habitt targets the mid-range consumer segment, offering ready-to-market furniture and home décor items with moderate pricing. ChenOne combines contemporary design with mid- to upper-range pricing, positioning itself as a lifestyle brand for modern households. This fragmentation indicates opportunities for differentiation, particularly for global brands like IKEA.

IKEA's competitive advantage lies in its ability to combine affordable pricing, sustainability, and innovative design, a combination not currently emphasized by local competitors. Unlike domestic players, IKEA's globally recognized brand image and standardized operational efficiencies could allow it to capture a significant market share by appealing to both aspirational and price-conscious consumers. Moreover, IKEA's product portfolio, characterized by modularity and versatility, aligns with urban living spaces where compact, functional furniture is in high demand.

4.3 Consumer Survey Insights

The primary survey conducted among 250 Pakistani consumers revealed mixed levels of brand awareness. Approximately 40% of respondents were familiar with IKEA as an international furniture brand, while 60% had limited or no prior knowledge. This highlights the need for targeted marketing campaigns to build brand recognition and educate potential consumers about IKEA's value proposition.

Survey results also indicate that price sensitivity varies across income levels. Higher-income respondents expressed a willingness to pay a premium for a globally reputed brand, while lower-income groups were more cautious, prioritizing affordability over brand loyalty. Cultural preferences emphasize modern, functional, and space-saving furniture, suggesting that IKEA may need to adapt certain product lines to meet local aesthetic and practical needs. Respondents also highlighted the importance of durability, design uniqueness, and sustainability, which aligns with IKEA's global branding

strategy.

4.4 Franchising as Entry Mode

The analysis supports franchising as the most viable entry mode for IKEA in Pakistan. Franchising offers several advantages, including lower capital expenditure, access to local market knowledge, and faster scalability, compared to wholly owned subsidiaries or joint ventures. By partnering with local entrepreneurs, IKEA can leverage established networks, understand regional consumer behavior, and reduce operational risks.

Nevertheless, franchising introduces challenges related to maintaining brand consistency, service quality, and operational standards. Structured training programs, continuous monitoring, and performance evaluation mechanisms are essential to ensure that franchisees uphold IKEA's global standards. The success of the franchise model relies on balancing local autonomy with strict adherence to global processes, ensuring customer satisfaction and brand reputation.

5. Discussion

Integrating insights from the PESTLE analysis, competitive evaluation, and consumer survey, it is evident that IKEA has strong potential for success in Pakistan, provided that strategic adaptations are implemented. Key success factors include the development of tailored marketing campaigns targeting both urban and aspirational consumers, culturally adapted product lines that reflect local tastes, competitive pricing strategies to address price-sensitive segments, and robust franchise management systems to maintain service and operational standards.

The study underscores the importance of aligning global brand standards with local expectations. While IKEA's global brand identity—affordability, sustainability, and innovative design—provides a competitive edge, market entry will require a nuanced understanding of Pakistan's economic, cultural, and regulatory environment. By leveraging its international expertise, adapting products for local needs, and ensuring efficient franchise operations, IKEA can achieve sustainable growth and establish a strong foothold in a competitive yet opportunity-rich market.

6. Conclusion

This study concludes that IKEA's potential entry into Pakistan represents a promising and strategically viable opportunity, contingent upon careful navigation of both macro-environmental and micro-level market dynamics. The research highlights that Pakistan's growing urban population, expanding middle-class, and rising consumer demand for modern, functional, and affordable furniture create favorable conditions for IKEA's international

expansion. At the same time, political instability, regulatory complexity, economic fluctuations, and culturally specific consumer preferences present challenges that require careful strategic planning. The analysis of consumer behavior reveals varying levels of brand awareness and sensitivity to pricing, suggesting that IKEA must implement targeted marketing strategies, adapt product offerings to align with local tastes, and emphasize value, durability, and sustainability. Competitive analysis indicates that while domestic firms dominate existing market segments, IKEA's global brand reputation, design innovation, and cost-efficient business model provide a distinct competitive advantage. Franchising emerges as the most suitable mode of entry, allowing IKEA to benefit from local knowledge, lower capital requirements, and rapid scalability, while structured training and monitoring programs ensure adherence to global standards. Overall, the study underscores the importance of balancing global brand consistency with localized adaptation to achieve sustainable growth. With strategic market positioning, culturally aligned product lines, and robust franchise management, IKEA has the potential to establish a strong and lasting presence in Pakistan, contributing to the country's growing furniture sector and reinforcing its long-term global expansion objectives.

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